

TEACHING ETHICAL ISSUES IN BANKING AND ACCOUNTING

Constantine Kalogeras
Florida International University
kalogera@fiu.edu

David Lavin
Florida International University, Retired
lavin@fiu.edu

ABSTRACT: In Florida International University (FIU) banking courses and accounting courses we expose students to some of the ethical issues in banking and accounting by requiring a term paper (as well as class discussions) and, where available, showing films such as *Rogue Trader*, the story of Nick Leeson, FX Trader at Barings Bank, who brought down the 100+ year old bank. Inputting the ethical categories listed below into search engines, such as Google, produces pages of bank cases involving ethical issues which are good sources for student term papers and classroom presentations.

1. Lack of accounting controls—i.e. Parmalat, Enron, Barings Bank, FX Traders such as Nick Leeson and John Rusnak.
2. High tech crimes—i.e. Wire fraud, phishing and internet fraud, fictitious bank inspector, rounding down and sending pennies to the programmer's bank account, or MICR encoding deposit slips with the programmer's bank account and placing the deposit slips in the bank's lobbies.
3. Low tech crimes—i.e. Forged documents, fraudulent loan applications, credit card fraud, check kiting, stolen ATM's facilitated by changes in bank architecture.
4. Government enforcement lapses (and overzealousness—i.e. Southeast Bank)—especially with respect to social responsibility and marketing laws: Truth in Lending, Truth in Savings, Equal Credit Opportunity, Community Reinvestment (i.e. SunTrust). Competitive Equality in Banking. "Bombarding" people with unsolicited credit card applications and then hypocritically pressuring Congress to tighten up the bankruptcy laws.
5. Money laundering—i.e. Bank Security Act, drug wars, illegal arms sales, insider trading, bribery, corrupt government officials. www.ustreas.gov/ussf/.
6. Customer Information Privacy—i.e. sharing customer information, identity theft, customer impersonation.

The issue is, is this coverage sufficient for the subject of ethics to be taught, learned and applied by our future leaders? This paper looks to answer this question.

INTRODUCTION

Corporate ethics has been much in the news in recent years, and the margin for an executive slip-up these days is narrow. Backdate an option to attract a new employee, or fail to supervise a leak probe, and you can face 20 years in the slammer. This doesn't seem to deter the breach of ethics in the workplace whether it is in the government, banking, private industry or education.

The inspector general, Earl Devaney, in the Interior Department of the Federal government stated at a hearing of the House Government Reform subcommittee on energy, "...short of a crime, anything goes at the highest levels of the Department of the Interior. I have observed one instance after another when the good work of my office has been disregarded by the department. Ethics failures on the part of senior department officials -- taking the form of appearances of impropriety, favoritism and bias -- have been routinely dismissed with a promise 'not to do it again.'" Devaney comments were accompanied by the release of his report on Interior's "bureaucratic bungling" of oil and gas leases that are "expected to cost

the government billions of dollars but were covered up for six years," reported the New York Times September 21, 2006.

Devaney accused top Interior officials, especially former Interior secretary J. Steven Giles, of tolerating and contributing to an unethical culture of denial, corruption, and cover-ups. Four government auditors for the Interior Department recently filed whistle-blower suits, accusing oil companies of defrauding the government and accusing their supervisors of killing at least five separate investigations into the apparent fraud. In lawsuits unsealed last week, the auditors say higher-ups at Interior ordered them to drop their investigations into "more than \$30 million in fraudulent underpayments of royalties for oil produced in publicly owned waters in the Gulf of Mexico," reported the New York Times September 14, 2006.

The abstract to this article lists a sampling of ethical issues in just one industry, banking—the most heavily regulated industry in the country. In private industry, the ethics issues are also rampant. The troubles at Hewlett-Packard don't hold a candle to the dismal failings at Enron, Tyco, or WorldCom. The HP story won't be another Arthur Andersen, where a grand corporate icon collapses into ashes. It won't even be another Martha Stewart, where a popular celebrity plummets into public disgrace. It may be the most significant corporate ethics story of the year, simply because it crosses two important moral Codes.

The first has to do with ethics and law. Many federal, state, and in-house HP committees will begin probing HP. It hired outside investigators who impersonated board members and journalists to fool phone companies into providing calling records, which were then used to link reporters and sources. The issue was there anything illegal in the way that corporate directors and officers investigated leaks of sensitive information to the press? HP approved the use of "pretexting," or assuming false identities to gain information, but investigators in a number of states are legally allowed to do just that. It also included the embedding of an electronic tracer in an email as a way to track later forwardings of the message, a relatively new technology about which the law appears unclear. Other techniques used by HP - - tailing and photographing individuals on the street, accessing public information on the Web, or throwing journalists off course with bogus information.

Legal or illegal, most people see this list of things as somewhere between morally dubious and flat-out wrong. The real questions that the probers need to ask are not about law but about core moral values. Were the actions at HP genuinely responsible? Were they honest and aboveboard? Did they show respect by board members for one another, for the company, and for the public? Did they express the highest kind of fairness? Would HP's corporate leaders feel comfortable having someone else -- journalists, for instance -- do to them what they did to others? If actions like these became the standard of best practice in every firm across America, would the business community be improved or diminished?

Even if the law never lays a glove on the company, it won't emerge unscathed which makes this case so significant. It has given us a powerful object lesson that just because something is legal, doesn't mean that it is also ethical. It helps prove that unethical activity can damage a corporation's most important asset -- its reputation -- just as powerfully as illegal activity.

The second reason this case is so significant has to do with compliance. Businesses trying to preserve reputations can't count on mere legal compliance to do it for them. In recent years, and especially in the wake of Sarbanes-Oxley regulations, corporations have embraced compliance as an end all solution to their ethics problems, sometimes at the expense of values-based ethics programs. But compliance only picks up what's illegal. If HP's actions were lawful or even gray, no amount of compliance ever could have prevented them. Compliance is no substitute for a clear sense of conscience and character. Only a corporate culture deliberately committed to integrity and a strong moral compass can make it unconscionable for corporate leaders even to contemplate doing the things HP did.

Even in education, there are numerous incidences of a breach in ethics. According to a recent study of 5,331 students at 32 graduate schools in Canada and the United States, 56 percent of graduate business school students admitted to cheating one or more times in the past academic year compared to 47 percent of non-business students (McCabe and Butterfield). Policies, rules, and the potential for getting caught had little to do with the students' decisions to cheat, according to the research. The authors found that, for business students, the perception that other students were cheating was the most powerful influence on their own behavior.

The daily papers, business journals and nightly broadcast media news reports are replete with ethics stories. As academicians, we incorporate business ethics in our curriculum sometimes as a separate course but often integrated into the classes of each business discipline. What can we do to align the ethics of our future business leaders to comply with the laws and morality of society? How can we create and maintain a first class culture of integrity?

In accounting, we look to these cases that broke the backs of our profession to understand what went wrong and what we did to correct the situation. In banking, we require term papers (as well as class discussions) and, where available, show films such as *Rogue Trader*, the story of Nick Leeson, FX Trader at Barings Bank, who brought down the 100+ year old bank.

The AACSB requires that the subject of ethics be included in our curriculum. Covering the subject and having the students realign their mores may be an impossible feat. The students see what is happening in the real world but it seems to have little effect on their own behavior. Teaching the subject only seems to meet the standards that are required by the accreditation board. Something more needs to be done to combat these future breaches of integrity.

IMPLICATIONS

A more all encompassing approach is needed in the university. The addressing of the ethics issue on a course by course basis seems only to be a band aid solution to this problem. College administrators need to work with faculty and students to create a culture of integrity and responsibility in their schools. Building an ethical community requires more than individual faculty efforts, even though such efforts can send an important message that a particular professor takes academic integrity seriously. In an ideal culture of integrity and responsibility, faculty and administrators engage students in an ongoing dialogue about academic integrity that begins with recruiting, continues in orientation sessions and initiation ceremonies, and continues throughout the program. If students see their peers behaving with honesty and integrity, designing academic integrity policies, living up to pledges regarding integrity, and educating other students about the importance of academic integrity, then maybe we can change some of the misaligned ethical behaviors of our future leaders.

REFERENCES

McCabe, Donald and Butterfield, Kenneth, "Academic Dishonesty in Graduate Business Programs: Prevalence, Causes, and Proposed Action", *Academy of Management Learning and Education*, forthcoming.

New York Times, September 14, 2006.

New York Times, September 21, 2006.